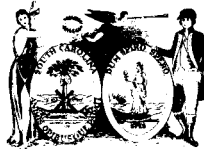


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

May 13, 2005

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

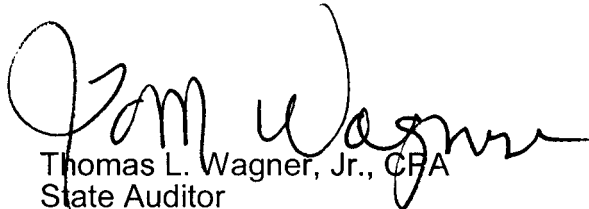
Re: AC# 3-MCC-J2 – Manor Care of Columbia, Inc. d/b/a Heartland of Columbia
Rehabilitation Center

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2001 through September 30, 2002. That report was used to set the rate covering the contract period beginning October 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**MANOR CARE OF COLUMBIA, INC.
D/B/A HEARTLAND OF COLUMBIA
REHABILITATION CENTER**

COLUMBIA, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2003
AC# 3-MCC-J2**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

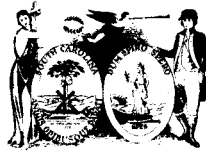
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 12, 2005

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center, for the contract period beginning October 1, 2003, and for the twelve month cost report period ended September 30, 2002, as set forth in the accompanying schedules. The management of Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

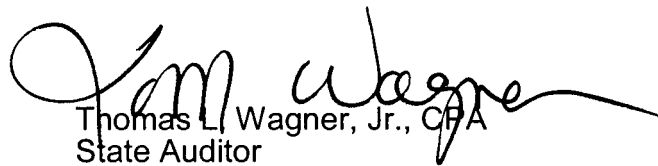
The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and Manor Care of Columbia, Inc. d/b/a Heartland of Columbia Rehabilitation Center dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
April 12, 2005

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

HEARTLAND OF COLUMBIA REHABILITATION CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2003
AC# 3-MCC-J2

	10/01/03- <u>09/30/04</u>
Interim Reimbursement Rate (1)	\$126.99
Adjusted Reimbursement Rate	<u>118.39</u>
Decrease in Reimbursement Rate	\$ <u><u>8.60</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 6, 2004

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2003 Through September 30, 2004
AC# 3-MCC-J2

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$ 57.47	\$57.17	
Dietary		11.18	11.55	
Laundry/Housekeeping/Maintenance		<u>7.50</u>	<u>9.83</u>	
Subtotal	<u>\$2.40</u>	76.15	78.55	\$ 76.15
Administration & Medical Records	<u>\$ -</u>	<u>17.27</u>	<u>13.46</u>	<u>13.46</u>
Subtotal		93.42	<u>\$92.01</u>	89.61
<u>Costs Not Subject to Standards:</u>				
Utilities		2.66		2.66
Special Services		.22		.22
Medical Supplies & Oxygen		3.22		3.22
Taxes and Insurance		7.11		7.11
Legal Fees		<u>.06</u>		<u>.06</u>
TOTAL		<u>\$106.69</u>		102.88
Inflation Factor (4.70%)				4.84
Cost of Capital				12.31
Cost of Capital Limitation				(3.39)
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				2.40
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(.65)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$118.39</u>

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-MCC-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,772,874	\$ 6,464 (5) 558 (8)	\$ 49,160 (6) 43,069 (7) 3,388 (7) 5,856 (8)	\$2,678,423
Dietary	531,762	46 (5) 258 (8) 1,177 (9)	5,890 (6) 6,197 (7)	521,156
Laundry	57,657	-	821 (7)	56,836
Housekeeping	161,177	2,763 (10)	2,447 (7) 3,675 (11)	157,818
Maintenance	136,379	13 (5) 2,266 (10)	668 (7) 62 (8) 3,041 (11)	134,887
Administration & Medical Records	842,531	10 (5) 2,658 (5) 5,492 (10)	596 (7) 331 (7) 38,844 (8) 5,805 (11) 137 (12)	804,978
Utilities	128,801	2,131 (10)	4,138 (3) 7 (8) 2,786 (11)	124,001
Special Services	10,404	9,563 (12)	9,722 (7)	10,245
Medical Supplies & Oxygen	198,615	5 (8)	18,268 (5) 13,038 (6) 475 (7) 1,771 (9) 15,157 (12)	149,911

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2002
AC# 3-MCC-J2

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	627,425	3,647 (8) 9,845 (10)	302,550 (4) 7,018 (11)	331,349
Legal Fees	7,272	51 (10)	4,735 (8) 20 (11)	2,568
Cost of Capital	399,989	5,792 (10) 233,977 (13)	13,442 (1) 35,752 (2) 8,786 (8) 1,192 (9) 6,738 (11)	573,848
Subtotal	5,874,886	286,716	615,582	5,546,020
Ancillary	297,663	8,257 (5)	-	305,920
Nonallowable	615,923	13,442 (1) 35,752 (2) 302,550 (4) 820 (5) 67,714 (7) 53,822 (8) 29,083 (11) 5,731 (12)	28,340 (10) 233,977 (13)	862,520
Total Operating Expenses	<u>\$6,788,472</u>	<u>\$803,887</u>	<u>\$877,899</u>	<u>\$6,714,460</u>
Total Patient Days	<u>46,253</u>	<u>350 (14)</u>	<u>-</u>	<u>46,603</u>
Total Beds	<u>133</u>			

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MCC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 233,452	
	Other Equity	283,173	
	Nonallowable	13,442	
	Accumulated Depreciation		\$ 516,625
	Cost of Capital		13,442
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	35,752	
	Cost of Capital		35,752
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Intercompany	4,138	
	Utilities		4,138
	To remove expense applicable to a related facility HIM-15-1, Section 2304		
4	Nonallowable	302,550	
	Taxes and Insurance		302,550
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Nursing	6,464	
	Dietary	46	
	Maintenance	13	
	Administration	10	
	Medical Records	2,658	
	Ancillary	8,257	
	Nonallowable	820	
	Medical Supplies		18,268
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MCC-J2

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Retained Earnings	68,088	
	Nursing		49,160
	Dietary		5,890
	Medical Supplies		13,038
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
7	Nonallowable	67,714	
	Nursing		43,069
	Restorative		3,388
	Dietary		6,197
	Laundry		821
	Housekeeping		2,447
	Maintenance		668
	Administration		596
	Medical Records		331
	Medical Supplies		475
	Special Services		9,722
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Restorative	558	
	Dietary	258	
	Taxes and Insurance	3,647	
	Medical Supplies	5	
	Nonallowable	53,822	
	Nursing		5,856
	Maintenance		62
	Administration		38,844
	Legal		4,735
	Utilities		7
	Cost of Capital		8,786
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MCC-J2

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Intercompany	594	
	Miscellaneous Income	1,192	
	Dietary	1,177	
	Medical Supplies		1,771
	Cost of Capital		1,192
	To properly offset income against related expense HIM-15-1, Sections 202.2 and 2304		
10	Housekeeping	2,763	
	Maintenance	2,266	
	Administration	5,492	
	Legal	51	
	Utilities	2,131	
	Taxes and Insurance	9,845	
	Cost of Capital	5,792	
	Nonallowable		28,340
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
11	Nonallowable	29,083	
	Housekeeping		3,675
	Maintenance		3,041
	Administration		5,805
	Legal		20
	Utilities		2,786
	Taxes and Insurance		7,018
	Cost of Capital		6,738
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
12	Special Services	9,563	
	Nonallowable	5,731	
	Administration		137
	Medical Supplies		15,157
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Adjustment Report
Cost Report Period Ended September 30, 2002
AC# 3-MCC-J2

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Cost of Capital Nonallowable	233,977	233,977
	To adjust capital return State Plan, Attachment 4.19D		
14	Memo Adjustment: To increase total patient days by 350 to 46,603		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$1,394,524</u>	<u>\$1,394,524</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HEARTLAND OF COLUMBIA REHABILITATION CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2002
AC# 3-MCC-J2

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.55013</u>	<u>2.55013</u>	
Deemed Asset Value (Per Bed)	39,828	39,828	
Number of Beds	<u>119</u>	<u>14</u>	
Deemed Asset Value	4,739,532	557,592	
Improvements Since 1981	4,093,271	23,898	
Accumulated Depreciation at 9/30/02	(<u>3,552,443</u>)	(<u>123,098</u>)	
Deemed Depreciated Value	5,280,360	458,392	
Market Rate of Return	<u>.0561</u>	<u>.0561</u>	
Total Annual Return	296,228	25,716	
Return Applicable to Non-Reimbursable Cost Centers	(6,145)	(533)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1,128</u>	<u>133</u>	
Allowable Annual Return	291,211	25,316	
Depreciation Expense	242,665	26,343	
Amortization Expense	-	-	
Capital Related Income Offsets	(4,428)	(521)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(6,070)</u>	<u>(668)</u>	<u>Total</u>
Allowable Cost of Capital Expense	523,378	50,470	\$573,848
Total Patient Days (Minimum 96% Occupancy)	<u>41,698</u>	<u>4,905</u>	<u>46,603</u>
Cost of Capital Per Diem	\$ <u>12.55</u>	\$ <u>10.29</u>	\$ <u>12.31</u>

HEARTLAND OF COLUMBIA REHABILITATION CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 2002
 AC# 3-MCC-J2

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$4.77	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$8.76</u>	<u>\$10.29</u>
Reimbursable Cost of Capital Per Diem		\$ 8.92
Cost of Capital Per Diem		<u>12.31</u>
Cost of Capital Per Diem Limitation		\$ <u>(3.39)</u>

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